



**STATE OF WISCONSIN**  
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410  
Leg.Audit.Info@legis.state.wi.us

Janice Mueller  
State Auditor

October 18, 2005

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Senator Scott Fitzgerald and  
Representative Dean Kaufert, Co-chairpersons  
Joint Committee on Finance  
State Capitol  
Madison, Wisconsin 53702

Dear Co-chairpersons:

The State's Annual Fiscal Report for fiscal year (FY) 2004-05, which was issued on October 17, 2005, shows an unreserved, undesignated General Fund surplus balance of \$4.1 million. I am writing to inform you of accounting changes by the Department of Administration that led to the reported surplus balance. These changes also resulted in the continuation of a deficit balance in the Medical Assistance Trust Fund at the end of FY 2004-05.

Throughout much of FY 2004-05, the Medical Assistance Trust Fund had a deficit balance because expenditures exceeded anticipated revenues. To address the shortfall, 2005 Wisconsin Act 2 directed that \$50.0 million be transferred from the General Fund to the Medical Assistance Trust Fund. 2005 Wisconsin Act 15 subsequently directed that an additional \$75.0 million be transferred to the Medical Assistance Trust Fund to cover the full deficit by the end of FY 2004-05.

On June 28, 2005, the Department of Administration transferred \$75.0 million from the General Fund to the Medical Assistance Trust Fund. On June 29, 2005, it reported to the Legislature on deficit cash balances, as required by s. 20.002(11)(f), Wis. Stats. In explaining the deficit in the Medical Assistance Trust Fund during May 2005, the Department of Administration indicated that "(t)his deficit will decline by \$125.0 million in June when revenue is transferred from the general fund to the Medical Assistance Trust Fund as required by 2005 Wisconsin Act 2 and 2005 Wisconsin Act 15."

Last week, it became apparent that because of errors we identified in the Department of Revenue's accounting for individual income tax revenues, the General Fund's unreserved, undesignated balance at the end of FY 2004-05 would have been reported as a deficit of \$50.9 million in the Annual Fiscal Report. However, as the report was finalized, the Department of Administration

made the following accounting changes. First, it reversed the June 28, 2005 transfer of \$75.0 million from the General Fund to the Medical Assistance Trust Fund. Second, it divided the \$75.0 million between two fiscal years, so that \$20.0 million was reported during FY 2004-05 and the remaining \$55.0 million was reported during FY 2005-06.

Because of these changes, the Annual Fiscal Report included a positive unreserved, undesignated General Fund balance of \$4.1 million as of June 30, 2005. However, because the entire \$75.0 million transfer specified in 2005 Wisconsin Act 15 was not made as of the end of FY 2004-05, a deficit balance of \$53.9 million was reported in the Medical Assistance Trust Fund.

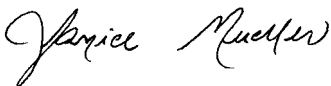
Representatives of the Department of Administration believe that the reversal of the initial \$75.0 million transfer and subsequent division of funds between two fiscal years is allowable under s. 16.52(12), Wis. Stats., which allows that agency's Secretary to determine the timing of interfund transfers when the Legislature does not specify a date. Agency representatives also indicate that if the Department of Revenue's accounting errors had been known, the Department of Administration would not have transferred \$75.0 million from the General Fund on June 28, 2005, because sufficient funds would not have been available.

We are concerned because the Department of Administration's action is in conflict with the Legislature's intent that the Medical Assistance Trust Fund be balanced at the end of FY 2004-05. We are also concerned that the Department of Administration's interpretation of s. 16.52(12), Wis. Stats., could allow it to delay indefinitely the legislatively mandated transfers to the Medical Assistance Trust Fund under Act 15, as well as any other transfer the Legislature may authorize without specifically stating the date by which it is to be made.

We review the financial statements included in the Annual Fiscal Report because the unreserved, undesignated General Fund balance represents funds available for general appropriation. However, we do not audit those financial statements. The audited financial statements for FY 2004-05 prepared in accordance with generally accepted accounting principles will be included in the State's Comprehensive Annual Financial Report, which is expected to be issued in December 2005.

Please contact me if you have any questions.

Sincerely,



Janice Mueller  
State Auditor

JM/BN/bm

cc: Members, Joint Legislative Audit Committee

Stephen E. Bablitch, Secretary  
Department of Administration

David Schmiedicke, Administrator  
Division of Executive Budget and Finance  
Department of Administration

Members, Joint Committee on Finance

Michael L. Morgan, Secretary  
Department of Revenue

William J. Raftery, State Controller  
Department of Administration